

State of Alaska FY2003 Governor's Operating Budget

Department of Transportation/Public Facilities Marine Highway System Budget Request Unit Budget Summary

Marine Highway System Budget Request Unit

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BRU Mission

To provide safe, reliable, and efficient transportation of people, goods, and vehicles among Alaska communities, Canada, and the "lower 48" providing opportunities to develop and maintain a reasonable standard of living and high quality of life for Alaskans by meeting social, education, and health needs.

BRU Services Provided

The Alaska Marine Highway System (AMHS) operates nine roll-on/roll-off passenger ships during the summer season and as few as four ships during the fall, winter and spring season. Weeks of operation are tailored to meet the needs of the travelling public and communities while maximizing revenue and minimizing costs.

AMHS constantly maintains, repairs, refurbishes, and upgrades its nine vessels and twenty terminal facilities. Hard use in a marine environment and the stringent regulation (state and federal) of passenger-carrying marine vessels determine the need for these activities. This BRU coordinates these activities and provides some of the funding for them.

Operations services provided:

- Along 3,500 track miles from Bellingham, WA, through Southeast Alaska, across the Gulf of Alaska to Prince William Sound and South Central Alaska, to Kodiak Island, the Alaskan peninsula and out the Aleutian Island to Unalaska transporting people, goods and vehicles to/from 34 separate ports.
- Using 20 State-owned terminals to shelter and book passage for over 350,00 passengers and stage over 100,000 vehicles per year to board AMHS vessels.
- Through 800 shipboard employees needed to adequately crew AMHS ships based upon U.S. Coast Guard (USCG) requirements and under 100 shoreside employees including terminal operators.
- Under the standardized safety program of International Safety Management (ISM) certification to maintain proficiency in the AMHS fleet and meet International Maritime Organization (IMO) requirements.
- As reflected in quality service to every customer that is to become the industry standard for maritime travel.
- In conjunction with USCG required annual overhaul, maintenance and inspection requirements.
- Under the Standards for Training, Certification, and Watch-keeping for Seafarers (STCW) program that requires all shipboard employees to be certified by February 2002. Such a program has been established and implemented through the development of course curriculums and qualification tracking .

The maintenance, repair, refurbishment, and upgrading services provided are to:

- Conduct the surveys, assessments, detailed preliminary engineering, cost estimating, long-range planning, and design for federally funded vessel modernization projects included in the department's needs list and ultimately the State Transportation Improvement Program.
- Initiate, administer, and provide on-site shipyard oversight of contracts for vessel modernization projects.
- Plan and provide preventive maintenance and repair of twenty terminal facilities.
- Purchase support services and goods for the necessary annual overhaul of each vessel.

BRU Goals and Strategies

Operate a safe, reliable, and efficient fleet of vehicle-passenger vessels year round.

- Plan and implement changes to provide more efficient and effective service in the future by laying up vessels in the off season and better matching of traffic demand with service.
- Maintain a 98% customer satisfaction by training AMHS employees in customer relations.
- Improve our reservations services by reducing caller wait time and increasing public use of AMHS's website for scheduling information, reservations, and payment.
- Increase revenue and passenger traffic through better marketing and pricing of available space.
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- Provide more frequent ferry service on a regular schedule and at a reduced cost by designing and procuring a fast vehicle ferry system.
- Ensure no loss of service by conducting overhauls and vessel upgrades in accordance with extensive regulatory requirements.
- Serve more than 350,000 passengers and stage more than 110,000 vehicles at our ferry terminals by performing semiannual preventive maintenance of the shoreside infrastructure.

Key BRU Issues for FY2002 – 2003

There is the continual need to improve customer service. It is important to maximize constituent inputs in schedule implementation and still provide maximum transportation support to Alaska communities. The purpose is to enhance the economic and social fabric of the communities AMHS serves under the constraints of budget reductions. At the same time AMHS is striving to achieve a lower cost per mile of operation by reducing overtime and laying up ships during the off season to save on personnel costs. Matching vessel capacity with customer demand is a constant goal.

As general fund support continues to decrease, a greater reliance is placed on the system becoming more self-supporting. Alternatives have been analyzed that could increase revenues through marketing, tariff adjustments, extending on board services and introducing on line reservations. A proactive marketing effort is being implemented to capitalize on those markets identified in the recent marketing and pricing study.

The system continues to improve training of all employees to increase professionalism, enhance morale and ensure safety in all operations and emergencies. Work is continuing to meet the February 1, 2002 deadline to certify over 800 vessel crew members in all areas required by the STCW.

Increased shipboard and shoreside terminal security demands are critical to maintain a safe and secure marine transportation system as part of the State of Alaska operated transportation system.

Major BRU Accomplishments in 2001

- Kept eight AMHS vessels crewed and in service by completing annual overhauls and meeting federal certification requirements. M/V Columbia was lost for the entire FY01 due to a switchboard fire in June 2000 and was subsequently delayed in the shipyard until July 2001.
- The M/V Kennicott, successfully served ports in Southeast Alaska and maintained the cross-Gulf of Alaska service, which links the Southeast and Southwest systems.
- Maintained the ISM Code program certification required for AMHS vessels to visit Canadian ports. AMHS is the only U.S. flag, vehicle-passenger vessel fleet with overnight accommodations to have earned this certification. This certification has become the safety standard for the entire AMHS fleet.
- Developed and managed an innovative Computer Based Training (CBT) program coupled with practical certification sessions to bring existing maritime employees in to compliance with STCW regulations. Over 50% of existing employees are certified and the target date of Feb. 1, 2002 should be met for the remaining employees.
- Successfully trained approximately 125 new vessel employees to the highest international standards of Basic Safety Training and Ship Familiarization set by federal STCW requirements. Training was accomplished with the first USCG computer based training program developed for AMHS and can be used to conduct training in house.
- Maintained AMHS vessels through a combination of federally funded and state funded overhauls. State overhauls were conducted in Ketchikan (6 vessels) and Seward (2 vessels).
- The new reservation management system (RMS3) met the federal and international safety requirements for accountability of passengers and improved reservations processing time through reprogramming and agent training.
- Kept the terminal facilities safely and reliably operable.

Key Performance Measures for FY2003

Measure:

The percentage of times that vessels depart on time.
Sec 151(b)(1) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

The AMHS goal is to consistently exceed the nationwide on-time airline departure benchmark of 75.1. This goal was achieved in FY01 with a 79% on-time departure rate by comparison to 77% in FY00.

Benchmark Comparisons:

The benchmark used for this performance measure is the on-time departure data from the airline industry. Nationwide the on-time departure benchmark is 75.1%. This varies by airline and airport.

Background and Strategies:

Numerous events can cause delays in ferry departure times, especially weather and tides. An additional relevant factor is the time it takes to load/unload large and/or low slung vehicles (RV's trucks w/trailers, heavy equipment) during busy periods. Most of these factors are out of the control of AMHS. Nevertheless, making schedule modifications in the event of continual and systematic delays are within the Department's control.

Our strategy is to review our performance by vessel and route for FY 01 to insure that our schedule is more realistic by accommodating for tidal delays and loading restrictions. While departing on time is important to our customers, safety concerns will not be compromised.

Measure:

The revenue per rider mile divided by the operational costs per rider mile.
Sec 151(b)(2) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

The ratio of revenue per rider mile to cost per rider mile for FY 01 was .48. This was obtained by dividing the revenue per rider mile of \$.64 by the cost per rider mile that was \$1.34. Rising fuel costs have increased operational costs significantly since FY99. In fact, fuel prices jumped 47% between FY99 and FY00. This problem was compounded when the price per gallon climbed an additional 30% between FY00 and FY01. This drove the cost per rider mile up 9.5% and pushed the ratio of revenue per rider mile down 6.5%.

Benchmark Comparisons:

The Washington State Ferry System reports a ratio of .60. The British Columbia Ferry Corporation reports a ratio of .81. Their cost per rider mile is about the same as the Alaska Marine Highway System. However, their revenue per mile is much higher since they adjust their tariffs to reflect increased expenditures.

Background and Strategies:

The Alaska Marine Highway System is on par when compared to the other ferry systems. The exception is the AMHS has lower revenue per rider mile when compared to the British Columbia system. Along these lines, the AMHS implemented a tariff increase effective May 1, 2001. However, the potential revenue from this increase was offset by three factors. First, the highest revenue producing vessel Columbia, could not be returned to service in FY01 as planned. Second, the Malaspina had to be rerouted from the North Lynn Canal (NLC) to cover for the Columbia. This caused a revenue reduction in NLC. Third, the Malaspina has a much smaller car deck capacity and fewer staterooms than the Columbia and consequently could not capture the full financial benefit from the most lucrative route.

This performance measure is influenced by several variables, i.e. seasonal demand, service routes, number of voyages per week between ports and the fluctuation in fuel prices.

Measure:

The total ridership, including passengers and vehicles, compared to the five-year ridership average.
Sec 151(b)(3) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

The AMHS established a goal to increase ridership by 3% per year. The five-year passenger average for FY96 to FY00 is 359,169 and the vehicle average is 102,097. In FY01, ridership was 339,290 and vehicles totaled 97,596. This represents a passenger decrease of 5.5% and a vehicle decrease of 4.4%. In each case, the decrease is attributable

to reduced operating weeks and the Columbia being off line for the summer because of fire damage.

Benchmark Comparisons:

There is no good benchmark for this performance measure. The BC Ferries and Washington State Ferries carry substantially more passengers and vehicles because both are short haul and commuter type systems.

Background and Strategies:

The Alaska Marine Highway System brought a ninth vessel on line and introduced cross Gulf service in FY99. This measure is a ridership comparison with a nine vs. eight-vessel fleet. A marketing manager was hired in FY 01 to increase ridership. Many marketing efforts are being undertaken to promote Marine Highway ridership. Unfortunately, there are events beyond the Department's control that can and have resulted in ridership reductions (e.g., blockades, strikes, fires, etc.).

Measure:

The average onboard revenue per passenger, including cabin occupancy, food, beverage, and other sources of revenue. Sec 151(b)(4) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

The AMHS goal is to increase onboard revenue by 5% from the three-year per passenger average of \$21.49, calculated from FY97 to FY99. In FY00, the sales per passenger were \$20.89 and in FY01, sales were \$21.19. This goal has been hampered by the Columbia fire, which occurred on June 6, 2000. The fire caused an immediate reduction in long haul capacity. Consequently, people took shorter trips on average for the remainder of FY00 and FY01. Shorter trips are tantamount to less onboard sales per passenger.

Benchmark Comparisons:

It is difficult to find a benchmark in other ferry systems as passengers spend much less time on the ships, hence spend less per person than on the AMHS.

Background and Strategies:

A marketing and tariff study was conducted by the McDowell Group in FY00 by surveying 3,500 customers. The purpose of the study was to find a way to improve the AMHS's revenue earning capability. This study identified the reasons people chose the AMHS to travel to and from Alaska and what they liked and disliked aboard the vessels. One area of recommended improvement was in food services, which had a 50% approval rating. The AMHS will focus on improving quality control, menu selection and food preparation during FY02. Our goal is to increase customer satisfaction in the food service area by 5% per year. Increasing customer satisfaction will be a meaningful adjunct toward increasing onboard revenues.

Measure:

The percentage of persons served who are satisfied customers. Sec 151(b)(5) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

An independent analysis of onboard comment cards was performed by a marketing class under the supervision of the marketing professor at the University of Alaska, Fairbanks. The percentage of customers who rated overall customer service very good to excellent increased from 75% to 83%. Our goal is to continue to increase the percentage of very satisfied customers annually, since this category represents those AMHS customers who feel service is very good to excellent.

Benchmark Comparisons:

Unfortunately, there is no good benchmark for this performance measure. The AMHS passenger ships are long haul and unique in North America. The BC Ferries and Washington State Ferries are short haul and commuter type systems.

Background and Strategies:

The AMHS experience is viewed as unique to Alaska travelers. The recent McDowell study is the first comprehensive look at the AMHS customer base in the 37-year history of the Marine highway System. Moreover, the study will serve

as a baseline from which future measures can be made. A study of this nature could be repeated every few years. Additionally, the AMHS will continue working with the University of Alaska who is compiling annual survey data to evaluate customer service and customer satisfaction. Meanwhile, the AMHS has clearly shortened call waiting times, provided training for the reservation staff, completed stateroom renovations and is providing onboard cook skills training in FY02. This strategy is directly tied to our goal to increase the level of very satisfied customers in FY02 and FY03.

Marine Highway System

BRU Financial Summary by Component

All dollars in thousands

	FY2001 Actuals				FY2002 Authorized				FY2003 Governor			
	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds
<u>Formula</u>												
<u>Expenditures</u>												
None.												
<u>Non-Formula</u>												
<u>Expenditures</u>												
Marine Vessel Operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	73,812.8	73,812.8
Marine Engineering Overhaul	0.0	0.0	1,798.5	1,798.5	0.0	0.0	2,141.0	2,141.0	0.0	0.0	2,201.0	2,201.0
Reservations and Marketing	0.0	0.0	1,830.1	1,830.1	0.0	0.0	1,698.4	1,698.4	0.0	0.0	1,698.4	1,698.4
Southeast Shore Operations	0.0	0.0	1,910.4	1,910.4	0.0	0.0	2,090.6	2,090.6	0.0	0.0	2,121.6	2,121.6
Southeast Shore Operations	0.0	0.0	2,976.4	2,976.4	0.0	0.0	3,028.9	3,028.9	0.0	0.0	3,073.1	3,073.1
Southeast Vessel Operations	330.0	0.0	57,216.4	57,546.4	0.0	0.0	57,496.6	57,496.6	0.0	0.0	0.0	0.0
Southwest Shore Operations	0.0	0.0	1,123.3	1,123.3	0.0	0.0	1,045.2	1,045.2	0.0	0.0	1,110.4	1,110.4
Southwest Vessel Operations	80.0	0.0	10,411.3	10,491.3	0.0	0.0	10,669.3	10,669.3	0.0	0.0	0.0	0.0
Vessel Operations Management	0.0	0.0	1,182.9	1,182.9	0.0	0.0	1,344.4	1,344.4	0.0	0.0	1,380.2	1,380.2
Totals	410.0	0.0	78,449.3	78,859.3	0.0	0.0	79,514.4	79,514.4	0.0	0.0	85,397.5	85,397.5

Marine Highway System

Proposed Changes in Levels of Service for FY2003

- Proactively study and pursue security improvements both aboard ship and shoreside to ensure the safest and most secure marine transportation system is part of the State of Alaska's transportation system.
- Diligently proceed with the procurement of the first high-speed passenger and vehicle carrying catamaran ferry to be built in the United States. (Delivery anticipated in Spring 2004).
- Proceed with the design and construction of the conventional Metlakatla ferry to be delivered in Spring 2003.
- Commission Metlakatla ferry (yet to be named) in May/June 2003 providing revolutionary daily service to/from Metlakatla.
- Operate 311.9 weeks of mainline vessel service plus 8.7 weeks for the Metlakatla ferry an increase of 26.5 operating weeks over FY02.
- Incorporate IFA service to Prince of Wales Island into AMHS reservations system and operational scheduling.
- Provide twice weekly service from Bellingham to Alaska. Spring 03 – Shift non-SOLAS M/V *Malaspina* to weekly Bellingham run alongside M/V *Columbia* to meet customer demands and match vessel capacity to these demands.
- Additional Cross Gulf trips by M/V *Kennicott* connecting Southeast and South Central Alaska.
- Additional service to Prince William Sound and SW Alaska by M/V *Kennicott* during the absence of the M/V *Tustumena* during an anticipated extended overhaul in winter 2002/03.
- Upon addition of Metlakatla ferry in Southeast, shift M/V *Aurora* to PWS to replace M/V *E.L. Bartlett* (surplus)
- Shift M/V *Taku* to modified Prince Rupert – North Lynn Canal service to use SOLAS capability and match North Lynn customer demand.
- Shift M/V *Matanuska* to twice weekly Prince Rupert service to match SOLAS capability and maximize capacity to ship fresh seafood from Alaska.
- Aggressively maintain shoreside terminal facilities
- Develop an on-line computer reservation system to permit computer assisted reservations including acceptance of credit card payment data over the internet.

Marine Highway System

Summary of BRU Budget Changes by Component

From FY2002 Authorized to FY2003 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2002 Authorized	0.0	0.0	79,514.4	79,514.4
Adjustments which will continue current level of service:				
-Marine Vessel Operations	0.0	0.0	69,578.4	69,578.4
-Marine Engineering	0.0	0.0	60.0	60.0
-Reservations and Marketing	0.0	0.0	31.0	31.0
-Southeast Shore Operations	0.0	0.0	44.2	44.2
-Southeast Vessel Operations	0.0	0.0	-57,496.6	-57,496.6
-Southwest Shore Operations	0.0	0.0	65.2	65.2
-Southwest Vessel Operations	0.0	0.0	-10,669.3	-10,669.3
-Vessel Operations Management	0.0	0.0	35.8	35.8
Proposed budget increases:				
-Marine Vessel Operations	0.0	0.0	4,234.4	4,234.4
FY2003 Governor	0.0	0.0	85,397.5	85,397.5